

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1980-16  
Bill No.: Truly Agreed To and Finally Passed CCS for SS for SS for SCS for HCS for HB 600  
Subject: Taxation and Revenue - General, Income, Sales and Use; Gambling; Professional Licenses; Retirement Systems and Benefits  
Type: Original  
Date: June 10, 2003

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
General Revenue*	\$46,242,847 to Unknown	\$18,278,674 to Unknown	\$18,277,283 to Unknown
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$46,242,847 to UNKNOWN</b>	<b>\$18,278,674 to UNKNOWN</b>	<b>\$18,277,283 to UNKNOWN</b>

\*Assumes unknown revenues exceed unknown costs.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Pharmacy Tax	\$31,494,070	\$31,490,334	\$31,490,334
Statewide Court Automation Fund	Unknown to \$640,000	Unknown to \$768,000	Unknown to \$768,000
Senior Rx Fund	\$5,200,000	\$6,200,000	\$6,500,000
Mental Health Earnings Fund	\$181,328	\$490,729	\$490,729
Health Initiatives Fund	\$1,365,680	\$1,365,680	\$1,365,680
Various State Funds*	Unknown	Unknown	Unknown

FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$38,881,078 to UNKNOWN</b>	<b>\$40,314,743 to UNKNOWN</b>	<b>\$40,614,743 to UNKNOWN</b>

\*Assumes unknown revenues exceed unknown costs.

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 37 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Federal*	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Savings and Loss of approximately \$80,000 annually would net to \$0.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>Local Government*</b>	<b>UNKNOWN</b>	<b>UNKNOWN</b>	<b>UNKNOWN</b>

\*Assumes unknown revenues will exceed unknown losses.

### FISCAL ANALYSIS

#### ASSUMPTION

Officials of the **Department of Public Safety, Missouri Water Patrol, Missouri Highway Patrol, Missouri National Guard, State Public Defender, Department of Agriculture, Missouri Gaming Commission, State Tax Commission, Missouri House of Representatives, Office of the Governor, Missouri State Senate, and the Missouri Ethics Commission** assume this legislation makes several changes to the sections relating to taxation. These agencies assume this legislation would not fiscally impact their respective agencies.

Officials from the **Coordinating Board of Higher Education** assume the fiscal impact of this

proposal on higher education is unknown as the potential revenue generated through these

ASSUMPTION (continued)

methods, as well as a plan for distribution of these funds, are unknown. The potential impact on both the public and private education institutions asked to provide assistance to the Joint Committee on Tax Policy as described in Section 21.810.3 is also unknown.

Officials of the **Office of Administration (COA), Division of Purchasing** assume this bill would require COA to check at least one time each year the status of every employee within the Division against a database developed by the Director of Revenue to determine if all state tax returns have been filed and all state taxes owed have been filed and all state taxes owed have been paid.

COA assumes this proposal would require that COA would not contract for goods and services with a vendor if the vendor or an affiliate of the vendor makes sales at retail of tangible personal property or for the purpose of storage, use, or consumption in this state but fails to collect and properly pay their tax liabilities.

Since a portion of this legislation would apply to all contracts awarded by COA, COA would need one additional Buyer III position.

**Department of Conservation (MDC)** officials state this proposal makes various modifications to several sections relating to taxation. This proposal would not appear to have a significant fiscal impact on MDC funds.

**State Treasurer (STO)** officials assume this proposal makes various changes relating to taxation:

- Prohibits contracts with vendors who fail to collect and properly pay sales tax.
- Allows a city tourism tax increase.
- Includes lottery and gaming winnings in Missouri Adjusted Gross Income.
- Provides DOR with the ability to dictate electronic payment of quarter-monthly taxes.
- Permits the donation of a tax refund or an outright donation to General Revenue.

- Allows the delivery of disputed escrow monies to the treasurer.

ASSUMPTION (continued)

- Supreme Court is to be notified of licensed lawyers delinquent or failing to file any state taxes owed.
- Allows Office of the State Courts Administrator to participate in the debt offset program on behalf of the court of a political subdivision.
- Creates an escrow account within the treasury (Section 488.5028.5) for the deposit of income tax refunds intercepted. The STO assumes this is the debt offset escrow fund already established within the treasury.
- Requires that all employees of the state, and state contractors file state tax returns and pay all taxes owed.
- Requires that the tax status of all employees of the state, all members of the general assembly, all elected officials, every elected or appointed member of the judicial branch have their tax status reviewed annually to ensure they have filed state tax returns and paid all taxes owed.
- Requires that no professional license or permit pursuant to various chapters be renewed without verification from DOR that state tax returns have been filed and all state taxes have been paid.
- Contains an emergency clause.

Should STO be required to accept the deposit of the disputed escrow monies, STO assumes they will need one Accountant I and the related expense and equipment. The duties of the FTE will be to accept the disputed escrow funds, account for the funds deposited, and review the resolution of the dispute to determine the proper disposition of the funds on deposit.

For Section 339.105, **Oversight** inquired of the Missouri Real Estate Commission (REC) about the number of disputed escrow cases per year and learned the REC does not keep track of these cases currently. REC estimates a maximum of \$100,000 to \$200,000 would be deposited in the State Treasury annually as a result of this proposal. **Oversight** notes the State Treasurer's Office performs a similar function with regard to unclaimed property and assumes they could devise a

similar system for disputed escrow cases. **Oversight** assumes the STO will not need the FTE.

ASSUMPTION (continued)

Officials from the **Department of Transportation (MoDOT)** assume this proposal makes numerous changes to Missouri's taxation statutes.

Section 136.325 proposes a tax and fee amnesty for motor vehicle sales and use taxes due on or before December 31, 2002. The amnesty would begin on August 1, 2003 and run through October 31, 2003. During that time, anyone who paid their overdue motor vehicle sales and use taxes would not pay any penalties. Revenues derived during the amnesty period would be deposited into the General Revenue Fund. This will result in an undetermined loss of revenue to MoDOT, as these funds should be deposited into the Highway Fund.

MoDOT believes this proposal is an unconstitutional diversion of state revenues derived from highway users (SRHU) contrary to article IV, section 30(b) of the Missouri Constitution. Section 30(b) provides that all SRHU paid for the right to use or as an incident to the use of the state highway system, less allocations to cities and counties, less certain specified costs and less refunds, must be deposited into the State Road Fund (SRF) to be expended under the direction of the Missouri Highways and Transportation Commission (MHTC) for the construction, maintenance and operation of the state highway system. Motor vehicle sales and use taxes are clearly SRHU.

Section 1 of the proposal would require employees of Missouri to file all returns and pay all state taxes as a condition of employment. These proposals will require all state agencies to screen employees for unpaid state taxes, which may cause administrative costs to increase. Section 2 of the proposal states that no person shall receive or renew a professional license unless all state tax returns have been filed and all state income taxes paid. This provision prohibiting professionals such as engineers and accountants from receiving a professional license unless all taxes are paid could hinder MoDOT's ability to attract and retain qualified personnel.

MoDOT assumes an effective date of July 1, 2003.

Section 1 of the legislation requiring MoDOT to verify that employees are current in the filing of their Missouri tax forms and all taxes are paid could require additional staff in the future if the workload becomes too large. At this time, MoDOT is assuming that the increased workload can be absorbed by existing staff and assumes no fiscal impact.

Section 144.250 of the legislation also proposes to double the penalties or additions to taxes for all taxes on motor vehicles as of November 1, 2003. This would increase revenues for MoDOT; however, MoDOT cannot estimate the impact and concurs with any estimates provided by DOR.

ASSUMPTION (continued)

Section 144.025 of the legislation specifies that articles used as trade-in to offset sales tax must have had sales tax paid or have been exempted from tax. This provision could potentially increase sales tax revenues for MoDOT; however, another provision in this section also allows any purchaser of a motor vehicle used for agricultural purposes to be able to use any grain or livestock produced or raised by that purchaser as an allowance to offset the sales and use tax liability. MoDOT cannot estimate the fiscal impact of these provisions and concurs with any estimates provided by the Department of Revenue.

In a prior response, officials from the **Missouri Lottery Commission (LOT)** assumed this proposed legislation does not have a fiscal impact on the LOT. The LOT currently withholds Missouri state taxes from winnings over \$599 from out-of-state residents. LOT states that the interest identified in Section 33.080.2 (53) is already transferred on a monthly basis to the Lottery Proceeds Fund for Education, pursuant to the Missouri Constitution.

Officials from the **State Courts Administrator (CTS)** assume the proposed legislation would make numerous revisions in the laws relating, primarily, to taxation.

CTS states there are currently \$23.4 million unpaid fines, fees and costs on criminal cases. However, CTS has no way of knowing how many fines, fees and costs will be collected as a result of refund offsets. CTS assumes since the interest earned on the funds realized is to be used to pay the offset administrative costs of this proposal, then no costs would be incurred by CTS for this proposal.

CTS assumes the provision relating to the time payment fee for court costs would have a significant fiscal impact (Section 488.5025). This section would allow a court to assess an additional \$25 fee for penalties, fines, and sanctions not paid in full within 30 days of imposition. Depending on the rate of assessment and collection, the range of possible collections is from \$1.25 million to \$2.4 million. The first figure, \$1.25 million, is based upon a 20% to 25% collection on misdemeanor and felony cases, and 10% on traffic. The second figure, \$2.4 million, is based on a collection rate of 50% of felonies and 75% of misdemeanors, and is the less likely amount of the two estimates.

CTS assumes the refund offset funds will be distributed to various funds as required by statute.

Officials from the **Attorney General's Office (AGO)** assume this proposal would prohibit the Office of Administration from entering into contracts with businesses that do not collect taxes pursuant to Chapter 144. AGO assumes the Office of Administration and the Department of

ASSUMPTION (continued)

Revenue would adjust contracts and monitor compliance appropriately, but that the proposal would result in additional litigation from those seeking to do business with the state. The proposal also effectively requires agencies to terminate employees for non-payment of taxes. AGO assumes this would result in additional employment litigation.

The proposal also prohibits the professional boards from issuing or renewing licenses to individuals with unpaid taxes. Again, AGO assumes this would result in additional licensing litigation. Finally, various provisions of the bill could result in additional collection litigation on behalf of DOR and other agencies (DMH for the SATOP program; corporation fees for SOS). Based on the assumption that the vast majority of contractors, state employees and licensees pay their taxes, AGO assumes costs could be absorbed with existing resources; but because a significant increase in activity in any of these areas would require additional staffing, cost of this proposal is UNKNOWN (potentially in excess of \$100,000).

Officials of the **Department of Revenue (DOR)** state this legislation makes the following changes:

**21.810 (Joint Committee on Tax Policy):** This section establishes the Joint Committee on Tax Policy. The committee will make a continuous study of current and proposed tax policies of the state and make recommendations to the full bodies of the respective houses. The committee may also study and review the Department of Revenue, Economic Development, State Tax Commission or any other state agency or commission responsible for tax policies. The committee will be comprised of five members each from the House of Representatives and the Senate.

Administrative Impact: No impact.

REVENUE IMPACT: The department defers the revenue impact to BAP or the General Assembly, whichever is appropriate.

**32.057 (Confidential Information):** This section allows DOR to provide confidential information to the Office of Administration relating to state vendors filing and paying taxes.

Administrative Impact: No impact.

REVENUE IMPACT: None

ASSUMPTION (continued)

**34.040 (Tax Clearances – State Vendors):** Requires every vendor or affiliate of a vendor seeking to contract to provide goods and services to the State of Missouri to collect and properly pay all sales and use taxes.

Administrative Impact: DOR will coordinate with the Office of Administration and anticipates minimal to no impact.

REVENUE IMPACT: DOR anticipates an UNKNOWN increase in revenues.

**67.2030 (Tourism Tax):** Authorizes a tourism tax for the city of Weston equal to ½%, upon voter approval. The department may collect the tax upon agreement with the city.

Administrative Impact: No impact.

REVENUE IMPACT: Unknown.

**136.320 (Amnesty):** This section authorizes a second state amnesty program. The amnesty will apply to only state tax liabilities due on or before December 31, 2002, and will not apply to any taxpayer who is a party to any criminal investigation or civil suit. Any delinquency eligible for the amnesty but left unsatisfied at the end of amnesty may be assessed a collection fee up to 25%.

Administrative Impact: DOR will need to make modifications to all mainframe programs in order to assess the new collection fee. The programming is estimated to take 4,152 hours, at a cost of \$138,510.

Last year, DOR was appropriated \$100,000 for notification mailings and \$150,000 for advertising. The legislation dedicates the first \$75,000 collected for postage and notification mailings. Therefore, DOR will need the remaining \$25,000 in postage and at least \$100,000 for advertising. Without the advertising budget of \$100,000, DOR will be unable to advertise the program.



REVENUE IMPACT: DOR anticipates the amnesty program and collection fee will result in an UNKNOWN increase in revenues. This increase is expected to exceed \$100,000.

ASSUMPTION (continued)

Since a tax amnesty was allowed in FY03, **Oversight** assumes the amount of noncompliance dollars still outstanding is unknown and will show the revenue impact from Section 136.320 as unknown. **Oversight** will show a negative unknown for the loss in additions to tax, penalties and interest. **Oversight** assumes DOR will need the requested postage and advertising amounts to implement the tax amnesty.

**136.325 (Car Amnesty):** Provides an amnesty period for the penalties, interest, fees and additions to tax for failure to pay sales tax on vehicles and failure to register such vehicles. The amnesty will run from August 1, 2003, to October 31, 2003.

Administrative Impact: The Division of Motor Vehicle will need \$5,743 for programming and procedural revisions. The any remaining administrative costs for this program will be included in the amnesty program located in section 136.320.

REVENUE IMPACT: The department anticipates the car amnesty program will result in an UNKNOWN increase in revenues. This increase is expected to exceed \$100,000.

**143.124 (Railroad Retirement):** This section clarifies that pension benefits must be included in federal adjusted gross income in order to deduct those benefits through the pension exemption. Currently taxpayers that have railroad retirement benefits can subtract their retirement benefits from their adjusted gross income on their Missouri income tax return and also deduct those benefits again through the pension exemption. This legislation will eliminate deducting the benefits twice, except for persons who are 100% disabled, who will still be able to take both a subtraction and a pension exemption for certain railroad retirement benefits.

Administrative Impact: This legislation will require additional verification, but DOR does not anticipate the impact to be significant enough to request FTE. Therefore there is no administrative impact.

REVENUE IMPACT: In a previous fiscal note filed in March 2000 (SB 992, LR 4415-01),

Oversight estimated the revenue impact at \$1.6 million. Therefore, DOR assumes the revenue impact somewhere between \$1.6 to \$2 million.

ASSUMPTION (continued)

**143.181 (Gambling Winnings):** Requires all lottery and other gaming winnings to be included in Missouri nonresident adjusted gross income when the winnings are from a Missouri source.

Administrative Impact: There is no administrative impact to DOR.

REVENUE IMPACT: According to the gaming commission, there is \$110 million of non-resident casino winnings paid out in Missouri. Therefore, with a 6% tax rate, the increase in revenues totals \$6.6 million.

**143.225 (Electronic Payments – Withholding Tax):** This legislation allows the director to authorize electronic payments for businesses required to submit their withholding tax payments quarter-monthly (weekly). Electronic payments speed up the processing time and improve the state's cash flow and interest earnings.

Administrative Impact: There is no administrative impact to DOR.

REVENUE IMPACT: If mandated electronic withholding tax quarter-monthly payments was implemented, the Cashiering Section estimates payments would be deposited into the bank 2 days sooner. The state would earn an additional \$736 in interest annually based on the following assumptions:

**Withholding Quarter-Monthly:**

Annual # W/H qtr-monthly due dates	48
# days processing	<u>x 3</u>
Total Days	144
 FY02 W/H qtr-monthly collections	 \$2,326,721,487
Deposit days	<u>/ 144</u>
Ave. daily bank deposit	\$ 16,157,788

Annual rate of return	x	2.28% (April, 2003)
# days faster deposit	x	<u>2</u>
Additional Interest Eamed Annually		\$ 736,795

**Oversight** assumes the annual rate of return should be reduced to 2.28%, based on the average daily earnings rate (as of April 15, 2003) provided by the Office of the State Treasurer.

ASSUMPTION (continued)

Therefore, **Oversight** assumes the additional interest earned annually would be \$736,795.

**Oversight** assumes the revenue impact of electronic withholding tax quarter-monthly payments for FY04 would be reduced to \$613,996 since only ten months would be available for the additional interest earnings to allow time for DOR to notify employers.

**143.1020 (Designation of Refunds):** Allows individuals or corporations entitled to a refund to designate all or part of the refund to general revenue.

Administrative Impact: DOR assumes that an emblem can be placed on the front of the return and a line will be placed with the refund total to allow for the taxpayer to designate the amount of the refund. Adding a line will impact the MINITS system, which is estimated to take 1,730 hours of programming and testing, at a cost of \$57,713.

REVENUE IMPACT: DOR anticipates the provision will result in an UNKNOWN increase in revenues.

**144.025 (Corn for Cars):** Specifies that an article used in trade-in to offset sales tax must have had tax paid or been exempted from tax. Motor vehicles used for trade-in for a credit must be owned by the person trading them in. Someone purchasing a motor vehicle or trailer for agricultural use may trade grain or livestock produced by the purchaser to offset the sales and use tax.

Administrative Impact: There is no administrative impact.

REVENUE IMPACT: DOR estimates that this proposal will result in a \$100,000 increase in general revenue.

**144.030 (Exemptions):** This section exemptions natural gas used in the manufacturing or processing of fuel ethanol. It also expands the farm machinery and equipment exemption by adding supplies to the exemption.

Administrative Impact: There is minimal administrative impact to DOR.

REVENUE IMPACT: DOR defers the revenue impact to BAP.

ASSUMPTION (continued)

**144.081 (Electronic Payments-Sales Tax)** – This legislation allows the director to authorize electronic payments for businesses required to submit their sales tax payments quarter-monthly (weekly). Electronic payments speed up the processing time and improve the state's cash flow and interest earnings.

Administrative Impact: There is no administrative impact.

REVENUE IMPACT: If mandated electronic payment of quarter-monthly sales tax was implemented the Cashiering Section estimates payments would be deposited into the bank 2 days sooner. The state would earn an additional \$332,925 in interest annually. Personal service cost savings would be minimal.

**Sales Quarter-Monthly:**

Annual # QMATS due dates	48
# days processing QMATS	<u>x 3</u>
Total Days	144
 FY02 QMATS Collections	 \$765,834,318
Deposit days	<u>/ 144</u>
Ave. daily bank deposit	\$5,318,294
Annual rate of return	x 3.13% (ave. FY02)
# days faster deposit	<u>x 2</u>
Additional Interest Eamed Annually	\$332,925

**Oversight** assumes the annual rate of return should be reduced to 2.28%, based on the average daily earnings rate (as of April 15, 2003) provided by the Office of the State Treasurer.

Therefore, **Oversight** assumes the additional interest earned annually would be \$242,514.

**Oversight** assumes the revenue impact of electronic sales tax quarter-monthly payments for FY04 would be reduced to \$202,095 since only ten months would be available for the additional interest earnings to allow time for DOR to notify businesses. **Oversight** has reduced the amount requested for postage to reflect the bulk mailing rate.

ASSUMPTION (continued)

**144.190 (Refunds to Purchasers):** This section prohibits retailers who have already received a refund of tax for a specific issue and submits a subsequent claim for refund on the same issue from obtaining refunds of sales and use taxes without crediting the original purchasers. If the retailer has partial information regarding the original purchaser, the money shall be considered abandoned property, under the state's abandoned property law.

It also requires the director to respond to a binding letter ruling within 60 days of receipt of the request. The letter ruling must include a specific set of facts provided by a specific taxpayer or his or her agent.

Administrative Impact: There is no administrative impact to DOR.

REVENUE IMPACT: Because the refunds to purchaser issue only codifies what DOR is currently doing now, there is no impact to General Revenue.

**144.250 (MV Sales Tax Penalty):** This section doubles the motor vehicle sales tax penalties, effective November 1, 2003.

Administrative Impact: There is no administrative impact to DOR.

REVENUE IMPACT: According to an opinion from the Attorney General's Office, the director is not authorized to impose the sales tax penalties listed in this section. The only penalty collectible, if thirty days from the date of purchase, is the penalty provided in section 301.190.(3). Therefore, doubling these penalties that aren't assessed will have no impact to General Revenue.

**301.190 (MV Title Penalty):** Increases the maximum penalty for failure to register a motor vehicle within 30 days from \$100 to \$200, effective November 1, 2003.

Administrative Impact: Modifications will be needed in order to change the tables within the motor vehicle systems. This programming is estimated to cost \$3,795.

REVENUE IMPACT: The Division of Motor Vehicles estimates doubling the penalty will result in an increase of revenue by \$3 million. **However, this revenue must be distributed to the highway fund, and to cities and counties.**

ASSUMPTION (continued)

**306.016 (Documented Vessels):** Increases the in lieu tax for documented vessels.

Administrative Impact: There is no administrative impact to DOR.

REVENUE IMPACT: The Division of Motor Vehicle estimates this proposal will result in a \$500,000 increase in revenues.

**313.826 (Withholding for Gambling Winnings):** Requires excursion gambling boats to withhold taxes on any winnings from gaming jackpot devices or table game jackpots exceeding \$1,200. The withholding will equal 4% of the total winnings.

Administrative Impact: There is no administrative impact to DOR.

REVENUE IMPACT: There is no impact to General Revenue.

**351.484 (Corporate & Franchise Dissolutions):** Allows the Secretary of State to dissolve corporations for failure to file or pay corporate income or franchise taxes. DOR must mail at least two notices to the taxpayer and provide a box on both the individual and corporate income tax returns for the taxpayer to indicate no tax is due.

Administrative Impact: DOR anticipates an increase in postage due to the notifications, as well as some programming changes. This impact is UNKNOWN at this time.

REVENUE IMPACT: DOR estimates this legislation will result in an increase to General

Revenue totaling \$11 million (\$10 from corporate tax and \$1 million from franchise tax).

484.053 (Tax Clearances – Attorneys): Authorizes the Supreme Court to send DOR a list of all attorneys licensed in Missouri so that DOR may verify that they have no outstanding tax delinquencies. DOR is to notify the Supreme Court of any attorneys who are not tax compliant.

Administrative Impact: Any administrative impact for this legislation will be included in Section 2 of this bill.

REVENUE IMPACT: DOR anticipates an UNKNOWN increase in revenues.

ASSUMPTION (continued)

**488.5025-488.5030 (Court Fee Offsets):** Authorizes debt offsets of income tax refunds for delinquencies in excess of \$25 to the Office of State Court Administrators

Administrative Impact: – MINITS programming will be needed to allow for the electronic match of the tapes and for the production of the letters. It is estimated that 346 hours of programming will be needed at \$11,543. DOR will need postage for the mailing of the letters, but the costs are UNKNOWN.

REVENUE IMPACT: DOR defers any revenue impact to the State Court Administrators Office or BAP.

**Section 1 (Tax Clearances – State Employees):** Requires as a condition of employment with any executive, legislative and judicial branches of state government that all state taxes due be filed and paid by the employee;

Administrative Impact: Any administrative impact for this legislation will be included in Section 2 of this bill.

REVENUE IMPACT: DOR anticipates and UNKNOWN increase in revenues.

**Section 2 (Tax Clearances – Professional Licenses):** Allows the revocation of any professional license granted by the state if DOR has verified that the license applicant has not

filed or paid their state taxes. Before revocation, DOR will notify the license applicant that taxes are due, and the applicant will have 90 days to pay the balance or make payment arrangements.

Administrative Impact: This legislation will require verification from DOR that taxes have been paid. DOR intends to work with the other state agencies in order to provide a list of delinquent employees, business license applicants or professional licenses applicants through a tape match. DOR assumes the other state departments will provide DOR with a list of names and social security numbers of individuals, and DOR will run those names against the income tax system in order to provide a list of delinquent taxpayers. However, for new employees or professional license applicants, DOR intends on providing a new internet based system that will allow other agencies to verify quickly that an applicant has complied with state tax filings and payments. DOR estimates this system will include a MINITS Interface (3 programmers for 3 months or \$51,942) and a WEB-Based Application (5 weeks of programming or 200 hours - \$6,672). The department also anticipates an increase in postages costs due to the notification of delinquent

ASSUMPTION (continued)

taxes. The additional programming costs are UNKNOWN.

REVENUE IMPACT: Michigan, who issues 700,00 professional licenses, began requiring compliance with professional licenses and reportedly brought in \$20 million. DOR assumes that because Missouri issues half of the licenses Michigan does (approximately 350,000), then Missouri would generate approximately half of the revenue (\$10 million).

Note: **Oversight** spoke with an official from Oklahoma regarding their compliance efforts with professionals and determined they collected approximately \$20,000,000 from a similar program. Oversight notes they have a comparable amount of licenses to Missouri. **Oversight** assumes the revenue impact of would occur only for FY04 and \$500,000 of revenue would be generated thereafter.

Officials of the **Office of Administration, Division of Budget and Planning (BAP)** offer the following on provisions impacting the state's general revenue fund:

Section 21.810 - Establishes Joint Committee on Tax Policy - no impact to state revenue;

Section 32.057 – Confidentiality of Tax Returns – State Vendor Sales Tax – could potentially impact General Revenue – defer to COA Purchasing and DOR;

Section 34.040 - Procurement - Unknown, defer to COA, Purchasing;



Section 67.2030 - Tourism Promotion Tax - No State Impact;

Section 67.990 - Senior Services - No State Impact;

Section 71.620- Investment Fund Service Corporations - No State Impact;

Sections 136.325 & 301.190 – Vehicle Tax Amnesty – could positively impact General Revenue – defer to DOR;

Section 143.124 - Railroad Retirement Double Dip - \$2 million in GR savings;

Section 143.181 - Tax on Nonresident Gaming Winnings – generates revenue - defer to Gaming Commission;

ASSUMPTION (continued)

Sections 143.225 & 144.081 - Electronic payment of withholding tax and sales taxes that are due quarter monthly – generates revenue - defer to DOR;

Section 143.782 - Court Cost Offset - Defer to Office of State Court Administrator;

Section 143.1020 – Taxpayer Donations – could positively impact General Revenue – defer to DOR;

Section 144.025 - Mandates that an article used for a trade-in for sales tax credit must have had sales tax paid on it & grain and livestock may be traded in on a motor vehicle – defer to DOR;

Section 144.030 - Exempts natural gas and supplies used in agricultural production from sales tax - defer to DOR;

Section 144.190 - Refunds to purchasers - defer to DOR;

Section 144.250 – Doubles Certain Tax Penalties – could potentially impact General Revenue – defer to DOR;

Section 191.831, 302.301&.540, 577.041, .049, .500, & .520 - Health Initiatives Fund SATOP - Saves Health Initiatives Fund money. Savings already assumed in Governor's budget

recommendation for FY 2004 – defer to DMH;

Section 208.565 – Senior RX Program – saves General Revenue. Savings already assumed in Governor’s budget recommendation for FY 2004 – defer to DHSS;

Section 301.190 - Motor Vehicle Title Delinquency Penalty - defer to DOR;

Section 306.016 – Yacht Tax - sets up a graduated rate system - defer to DOR;

Section 313.826 - Withholding tax of 4% must be collected on winnings on gambling boats on table games and electronic games – defer to the Gaming Commission;

Sections 338.515-338.550 - Pharmacy Provider Tax – the extension of the sunset was included in the Governor’s budget recommendation for FY 2004 – defer to DSS. The language added in Section 338.550.1 will cost General Revenue \$6.3 million in FY 2004 since higher rates will have to be paid to pharmacists than currently planned;

#### ASSUMPTION (continued)

Section 339.105 - Earnest money from disputed real estate transactions goes to Unclaimed Property Fund - Unknown;

Section 351.120, .140, .484, & 355.856, & 356.211 - Corporations may be dissolved for failure to pay corporate/franchise tax - defer to DOR;

Section 484.053 – Tax clearances for attorneys – defer to DOR;

Section 488.5025-Court Costs - defer to Office of State Court Administrator;

Section 488.5028-Court Cost Offset - defer to Office of State Court Administrator;

Section 488.5030 - Private collectors - No state impact;

Section 1 - Tax clearances for state employees, elected officials, and Judiciary – generates additional revenue – defer to DOR; and

Section 2 - Tax clearances for issuance or renewal of professional licenses – generates additional revenue – defer to DOR.

**Oversight** assumes the revenue impact for the pension exemption estimate would grow only slightly each year however, **Oversight** assumes the amount of 100% disabled railroad retirees' pensions is a small unknown and will show the revenue impact for this portion of the proposal as \$2 million annually, as provided by BAP.

In a previous response, officials of the **Department of Economic Development (DED)** assume the bill, with amendments, addresses tax provisions and other sections of law which would have no impact on DED. The bill would impact DED in that it requires checking once per year to see if state employees have paid applicable individual income tax. DED assumes that DOR will check a list of employees to see if they are in compliance. DED would have to rely on DOR to work out issues identified in the annual check on employees. It also requires DED's Division of Professional Registration (DPR) to cooperate with DOR to insure that professional licensees have paid taxes for the last 3 years before licenses could be renewed. This may require DPR to incur some costs to provide DOR with licensees tax identification number. DED assumes DOR will be able to perform an automated match and do collections. Some costs could be incurred for computer programming to generate the list. DPR could also incur some overtime and postage costs to communicate with licensees whose license is denied due to non-payment of taxes. There are approximately 400,000 licensees that would have to be checked each year.

ASSUMPTION (continued)

DED may need to request FTE and/or expenses at a later date depending on impact. A decision item would be submitted at that time. Amendments 1, 2, 5, and 19 appear to have no impact on DED. DED assumes checks can be done in an automated fashion by DOR if they are provided a list of licensees and employees. DED assumes cooperation between departments.

Officials from the **City of Kansas City (CKC)** state that passage of this legislation would have a negative fiscal impact on their city. CKC assumes the investment fund service corporation loss is estimated to be \$3.5 to \$4 million.

Officials from the **Department of Health (DHSS)** believes this bill will, over time, increase participation by generic drug manufactures in the Missouri Senior Rx Program. At present, a number of generic drug companies are not participating in the program and others have provided notice of their intent to withdraw at the end of FY 2003 because the rebate they are required to pay the program is substantially above the norm. Section 208.565, RSMo currently requires generic manufactures to pay the program a 15% rebate on their drugs that are utilized by the program participants while the national trend (including the Missouri Medicaid Program ) is 11%.

The estimated cost savings associated with a reduction in the generic rebate percentage was provided to DHSS by actuarial consultant William M Mercer, Inc. Our current rebate contracts with generic drug companies expire on either 5/31/03 or 6/30/03. Many of the generic companies have notified the program they will withdraw from the program at the end of this contract period if the rebate percentage for generic companies is not reduced to 11%. The attached estimates by the program's actuary are based on the assumption that if the rebate reduction for generic companies is not passed, generic companies will withdraw from the program. This has the result of making the program a brand name drug only program for SFY04 and beyond. The primary factor driving the estimated savings in total program costs is the increase in the average cost of a prescription resulting from only brand name drugs being available. Nationally, low cost generic alternatives account for 42% of total prescriptions (The Kelly Foundation).

By removing the generic medications from the program, Mercer estimated the average cost of the prescription will increase from \$74 to \$88 in SFY04; from \$80 to \$95 in SFY05; and from \$86 to \$102 in SFY06. For the purposes of this fiscal note we have assumed that Generic drug manufactures that have agreed to stay with the program through May 31, 2003, would stay with the program until this bill is enacted if it is passed both Houses of the Legislature during this session.

#### ASSUMPTION (continued)

DOH assumptions in calculating cost savings:

#### **Population**

- Estimates for the total number of seniors in Missouri were based on the 1990 and 2000 census projected forward through SFY06.
- The total senior population in Missouri grows by an average of 3% per year.
- Estimated enrollment is assumed to be 22,000 in SFY04; 28,325 in SFY05 and 31,160 in SFY06.

#### **Claim Costs/Trends/Financial Analysis**

- Discounts are legislated at 10.43% of AWP (Average wholesale price) for brand and 20% of AWP for generic drugs.
- Rebates are provided at 15% of AMP (Average manufacturer's price) for brand and generic drugs in SFY03.
- Rebates are provided at 15% of AMP for brand drugs and 11% of AMP for generic drugs in

SFY04, SFY05 and SFY06.

- Generic manufacturers will be willing to participate in the program if the rebate amount is reduced from 15% to 11%.
- There is a 6 month lag in rebate payments.
- Dispensing fee of \$4.09 per prescription.
- Projected yearly number of scripts per person--40 scripts per participant per year in FY03 in total (of which the program benefits will cover 30 scripts per participant per year)  
43 scripts per participant per year in FY04 in total (of which the program benefits will cover 34 scripts per participant per year).
- Number of scripts per participant per year is trended at 8% to SFY05 and 7.5% to SFY06.
- Projected average cost per script \$69 in FY03 (before discounts & rebates); \$74 in FY04 if the legislation passes and \$88 if the legislation does not pass (before discounts & rebates) .
- Average cost per script is trended at 8% to SFY05 and 7.5% to SFY06.

DHSS states the program savings will be \$5,200,000 in FY 04; \$6,200,000 in FY 05; and \$6,500,000 in FY 06.

**Oversight** was not provided the Mercer, Inc assumptions since this information is proprietary information of Mercer, Inc. **Oversight** does not have the detail information to recalculate the saving and cannot validate the DHSS response. **Oversight** is presenting the cost savings as provided by the DHSS.

#### ASSUMPTION (continued)

Officials from the **Office of Secretary of State (SOS)** assume this bill modifies tax laws. SOS assumes there would be costs due to additional publishing duties related to the Department of Revenue, the State Lottery, the Department of Social Services, Department of Mental Health, and the Secretary of State's authority to promulgate rules, regulations, and forms. SOS estimates the divisions could require approximately 110 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 55 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$6,765, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations

process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials of the **Department of Insurance (INS)** assume this proposal requires all state employees to have filed and paid state taxes. Also, INS assumes this proposal requires all licensee's of INS to have filed and paid state taxes.

INS assume that the additional administrative duties required by this legislation could be handled with existing staff. Processing time for licensing producers could be lengthened, but INS anticipates it will still be within acceptable time frames. If workload is more than anticipated, INS may require additional staff and expenses in the future.

In a previous response, officials from the **Department of Natural Resources (DNR)** assume this proposal removes the tax on natural gas used in the production or processing of ethanol. The proposed exemption is similar to Section 144.030 (31) and although the amount of natural gas used in the primary process of ethanol is unknown, DNR does not believe it to be significant. DNR assumes the proposal would result in decreased revenue to the Parks and Soils Sales Tax Fund. DNR further assumes the Department of Revenue or the Department of Agriculture would provide the revenue projections.

**Oversight** assumes this proposal would potentially decrease revenue as ethanol producers will be allowed an exemption from sales tax on natural gas purchases for the production of the ethanol. The amount is unknown. **Oversight** will reflect the revenue loss for this proposal as a negative unknown for each year.

#### ASSUMPTION (continued)

Official of the **Department of Mental Health (DMH)** assume the proposed legislation would authorize DMH to establish the amount supplemental fees that are paid by persons enrolled in the Substance Abuse Traffic Offender Program (SATOP). Delinquent fees will have interest charged and will accrue at a rate not to exceed the established annual rates plus three percentage points.

The administrator of the SATOP must remit the supplemental fees to DMH on or before the fifteenth of each month. Any administrator failing to remit the supplemental fees will be subject to a penalty equal to the amount of interest accrued on the supplemental fees. If the supplemental fees, interest, and penalties are not paid within six months, the Attorney General may initiate appropriate action. Section 577.520 requires DMH to annually check the status of all employees against a database developed by the Department of Revenue to determine if all

state income taxes have been filed and paid. Failure to satisfy the liability or provide a copy of the payment plan within thirty days will result in immediate dismissal of the employee by the state.

DMH assumes the proposed legislation permits payment of supplemental fees for the SATOP program as established by the Department to the Mental Health Earnings Fund (MHEF). The dollar amount calculated is based on a fee of \$125; a \$65 increase per client. Based on collecting 98% of the fees from an estimated 29,143 persons, the fiscal impact to the MHEF is \$1,856,409 ( $\$65 \times 98\% \times 29,143 = \$1,856,409$ ). The dollar amount of Health Initiatives Fund (HIF) funding for SATOP to be removed is \$1,365,680 for program costs.

In addition to the fiscal impact resulting from the increase in SATOP fees, MHEF may also be impacted due to the ability to collect interest and penalties on overdue fees. At this time, DMH is unable to estimate how much, if any, interest and penalties will be collected. The provision requiring the Department of Mental Health to annually check the status of all employees against a database developed by the Department of Revenue to determine if all state income taxes have been filed and paid has an unknown cost to DMH.

Officials of the **Department of Elementary and Secondary Education (DES)** assume this proposal makes various modifications to the taxation laws (i.e. creates amnesty from the assessment or payment of all penalties, additions to tax, fees, and interest due with respect to motor vehicle tax liabilities due on or before December 31, 2002; makes changes to the definition of Missouri adjusted gross income of a nonresident individual; creates an avenue for individual and corporate tax refunds to be donated to the state general revenue fund; creates a 4% state income tax withholding on excursion boat gaming winnings of \$600 or more; and creates an annual check of state employees to ensure filing of state income tax returns as a condition of continued employment).

#### ASSUMPTION (continued)

DES assumes they cannot estimate the dollar impact to state funds resulting from the changes in this proposal, but assumes a positive unknown to the General Revenue Fund.

Officials from the **Department of Social Services (DOS)** assume Section 338.500 makes minor changes to the administration of the pharmacy tax administered by DOS as well as extends the pharmacy tax through July 1, 2005. The legislation also states that the pharmacy tax will expire in 90 days if the aggregate dispensing fee or the formula used to calculate the reimbursement is lower than the fiscal year 2003 reimbursement. The FY04 budget (Governor Recommendations) contains two items that will reduce the reimbursement (AWP-14% and Co-payments) to

pharmacies.

DOS estimates retail pharmacy sales for FY04 at \$3.22 billion. This is based on the data obtained during the first year of operation of the pharmacy tax and inflated by 3%. For the purposes of this fiscal note, DOS assumed an average tax rate of 1.71%, which would yield revenue of \$55,056,000. \$23,401,002 will be used to continue the program management initiatives. The net gain in terms of GR to the State is \$31,654,998 (\$55,056,000 - \$23,401,002). The net gain of \$31,654,998 allows DMS to draw federal funds of \$50,267,874 for a total of \$81,922,872.

DOS assumes that the average tax rate could approach 1.8%, which would yield revenue of \$57,960,000, but DOS has elected to project revenue of \$55,056,000 to be fiscally conservative.

The maintenance and additional requirements of this program will require one additional FTE.

DOS estimates that \$100,000 (E) will be needed for a vendor system support. The funds are requested so that DOS can maximize the pharmacy tax revenue and to perform the quarterly revisions, which should also increase pharmacy tax revenue.

For the purpose of this fiscal note, DOS assumes the pharmacy tax would be in effect in FY04, FY 05, and  $\frac{1}{4}$  of FY06. As stated, the language states the pharmacy tax will expire 90 days after any change in dispensing fee or ingredient reimbursement, or July 1, 2005. DOS assumes the intent was for the pharmacy tax to sunset on July 1, 2005, but in the current form, DOS assumes that the pharmacy tax would expire 90 days after July 1, 2005. If it was assumed that pharmacy tax would sunset 90 days after any change in dispensing fee or ingredient reimbursement and that occurred on July 1, 2003, the pharmacy tax would expire on September 30, 2003 and only  $\frac{1}{4}$  would be realized in FY04 and no revenue for FY05 and FY06.

#### ASSUMPTION (continued)

**Oversight** assumes for Section 71.620 that if a municipality is currently charging a corporate or license tax in an amount greater than \$25,000 for investment funds service corporations, this proposal would create a loss in revenue to that city/county. The loss would be in an amount that would be the difference between the limit of \$25,000 and the amount that the city/county is currently taxing. **Oversight** assumes that some municipalities would have no fiscal impact, while others would have an impact. Therefore, **Oversight**, for the purposes of this fiscal note, will show fiscal impact to local governments as (Unknown). **Oversight** assumes no state fiscal impact.



**Oversight** assumes for Section 67.990 that this proposal would increase the maximum levy that could be levied for providing Senior Services from the existing 5 cents to 10 cents per \$100 of assessed value. **Oversight** assumes that certain counties or cities' governing bodies would need voter approval to increase the local tax levy. **Oversight** assumes this proposal does not require governing bodies to seek an increase in the Senior Citizen Services Tax, therefore, **Oversight** assumes no fiscal impact to local governments. Since voter approval would be required before fiscal impact would be realized, **Oversight** will show no fiscal impact.

**Oversight** assumes Section 67.2030 is enabling legislation. Certain cities would have no fiscal impact unless the voters would approve the imposition of the sales tax provided for in this proposal. Cities that would impose the tax would realize income for the purpose of promoting tourism. The City Collector or some official designated to collect the tax would have some additional duties related to administration and collection of the tax. Because this proposal does not mandate the imposition of the tax, fiscal impact will be shown as \$0.

**Oversight** assumes that if the sales tax were approved by the voters the city could make an agreement with the Department of Revenue to have the State collect the sales tax. If an agreement were made, the Department of Revenue could retain up to 1% for a collection fee that would be deposited in the General Revenue Fund. If this would occur the amount of collection fee would be unknown. Since there would be no state or local fiscal impact without voter approval, **Oversight** will show no fiscal impact.

### **This legislation will increase Total State Revenue.**

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
<b>GENERAL REVENUE FUND</b>			
<u>Income - General Revenue</u>			
Refund contributions (143.1020)	Unknown	Unknown	Unknown
Reduction in pension exemptions	\$2,000,000	\$2,000,000	\$2,000,000
Electronic sales/use tax payments	\$202,095	\$242,514	\$242,514
Electronic withholding payments	\$613,996	\$736,795	\$736,795
Nonresident casino winnings	\$6,600,000	\$6,600,000	\$6,600,000
Fines and costs on criminal cases offset	Unknown	Unknown	Unknown

Time payment fee (488.5025)	Unknown to \$400,000	Unknown to \$480,000	Unknown to \$480,000
Increase in tax compliance from tax clearances to vendors (32.057)	Unknown	Unknown	Unknown
Increase in tax compliance from tax clearances on employees	\$375,000	\$375,000	\$375,000
Increase in tax compliance from tax clearances to issue/renew prof licenses	\$19,400,000	\$500,000	\$500,000
Decrease in allowable sales tax trade-in credit (144.025)	\$100,000	\$100,000	\$100,000
Increase in MV title delinquency penalties (301.190)	Unknown	Unknown	Unknown
Increase in in-lieu of tax for Coast Guard registered vessels (306.016)	\$500,000	\$500,000	\$500,000
Reduction in sales tax refunds (144.190)	\$10,000,000	\$0	\$0
Vehicle tax amnesty (136.325 & 301.190)	\$500,000	\$0	\$0
Tax Amnesty (136.320)	Unknown	\$0	\$0
Increase in tax compliance from tax clearances on attorneys (484.053)	Unknown	Unknown	Unknown
Increase in corporate & franchise tax (351.120)	<u>\$11,000,000</u>	<u>\$5,500,000</u>	<u>\$5,500,000</u>
Total Income - GR	\$41,916,091 to UNKNOWN	\$16,159,309 to UNKNOWN	\$16,1059,309 to UNKNOWN
<u>Savings - General Revenue</u>			
Health Initiatives Fund SATOP savings	\$1,300,000	\$1,300,000	\$1,300,000
Senior Rx Program savings (191.831)			
<u>FISCAL IMPACT - State Government</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
<u>Loss - General Revenue</u>			
Sales tax exemption for natural gas used in the production of ethanol (144.030)	(Unknown)	(Unknown)	(Unknown)
<u>Loss - General Revenue</u>			
Decrease in additions to tax, penalties and interest from amnesty	(Unknown)	\$0	\$0

Cost - Department of Revenue

Expenses for amnesty (136.320)	(\$263,510)	\$0	\$0
Programming (488.5028.1)	(\$11,543)	\$0	\$0
Programming (143.1020)	(\$57,713)	\$0	\$0
Programming/Postage (351.484)	(Unknown)	\$0	\$0
Programming (tax clearances, Sec 1-2)	(\$51,942)	\$0	\$0
WEB-Based Application (Sec. 1-2)	<u>(\$6,672)</u>	<u>\$0</u>	<u>\$0</u>
Total Cost - DOR	(\$391,380 to Unknown)	\$0	\$0

Cost - Dept. of Health & Senior Services

Pharmacists rate increase (338.550.1)	(\$6,300,000)	\$0	\$0
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Cost - Dept. of Economic Development

Tax clearance expenses for Professional Licenses	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
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Cost - Office of Administration

Personal Service (1 FTE)	(\$37,488)	(\$39,386)	(\$40,370)
Fringe Benefits	(\$15,171)	(\$15,940)	(\$16,338)
Expense and Equipment	<u>(\$4,205)</u>	<u>(\$309)</u>	<u>(\$318)</u>
Total Cost - COA	(\$56,864)	(\$55,635)	(\$57,026)

Cost - Attorney General

Litigation expense (tax clearances)	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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**ESTIMATED NET EFFECT ON  
GENERAL REVENUE FUNDS\***

<b><u>\$46,242,847 to</u></b>	<b><u>\$18,278,674 to</u></b>	<b><u>\$18,277,283 to</u></b>
<b><u>UNKNOWN</u></b>	<b><u>UNKNOWN</u></b>	<b><u>UNKNOWN</u></b>

\*Assumes unknown revenues will exceed  
unknown costs.

FISCAL IMPACT - State Government

FY 2004

FY 2005

FY 2006

**STATEWIDE COURT  
AUTOMATION FUND**

Income – Office of State Courts  
Administrator

Time payment fee (488.5025)

Unknown to  
\$640,000Unknown to  
\$768,000Unknown to  
\$768,000**ESTIMATED NET EFFECT ON  
STATEWIDE COURT  
AUTOMATION FUND**Unknown to  
\$640,000Unknown to  
\$768,000Unknown to  
\$768,000**SENIOR Rx FUND**Savings - Department of Health and  
Senior Services

Program savings (208.565)

\$5,200,000\$6,200,000\$6,500,000**ESTIMATED NET EFFECT ON  
SENIOR Rx FUND**\$5,200,000\$6,200,000\$6,500,000**MENTAL HEALTH EARNINGS  
FUND**Income - Department of Mental Health  
SATOP fees

\$1,547,008

\$1,856,409

\$1,856,409

Costs - Department of Mental Health  
SATOP program expenses previously  
paid for with Health Initiatives  
Funds(\$1,365,680)(\$1,365,680)(\$1,365,680)**ESTIMATED NET EFFECT ON  
MENTAL HEALTH EARNINGS  
FUND**\$181,328\$490,729\$490,729FISCAL IMPACT - State Government

FY 2004

FY 2005

FY 2006

**HEALTH INITIATIVES FUND**Savings - Department of Mental Health  
SATOP program expenses\$1,365,680\$1,365,680\$1,365,680

<b>ESTIMATED NET EFFECT ON HEALTH INITIATIVES FUND</b>	<b><u>\$1,365,680</u></b>	<b><u>\$1,365,680</u></b>	<b><u>\$1,365,680</u></b>
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**PHARMACY TAX**

Savings - Department of Social Services -  
Division of Medical Services

Program savings - pharmacy program (338.515 to 338.550)	\$31,574,534	\$31,572,666	\$31,572,666
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Costs - Department of Social Services -  
Division of Medical Services

Personal Services (1 FTE)	(\$18,489)	(\$22,750)	(\$22,750)
Fringe Benefits	(\$7,482)	(\$9,207)	(\$9,207)
Expense and Equipment	<u>(\$54,493)</u>	<u>(\$50,375)</u>	<u>(\$50,375)</u>
Total Costs - DOS	<u>(\$80,464)</u>	<u>(\$82,332)</u>	<u>(\$82,332)</u>

<b>ESTIMATED NET EFFECT ON PHARMACY TAX FUND</b>	<b><u>\$31,494,070</u></b>	<b><u>\$31,490,334</u></b>	<b><u>\$31,490,334</u></b>
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**VARIOUS STATE FUNDS**

Income - **Various State Funds**

Increase in tax compliance	Unknown	Unknown	Unknown
Fines and costs on criminal cases offset	Unknown	Unknown	Unknown

Income - **Unclaimed Property Fund**

Earnest money from disputed real estate transactions (339.105)	Unknown	Unknown	Unknown
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<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
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Income - **Highway Fund** (DOR)

Increase in MV title delinquency penalties (301.190)	Unknown	Unknown	Unknown
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**Loss - Various State Funds**

Sales tax exemption for natural gas used in the production of ethanol (144.030)	(Unknown)	(Unknown)	(Unknown)
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**Cost - Highway Fund (DOR)**

Expenses for car amnesty (136.325)	(\$5,743)	\$0	\$0
Programming (301.190)	<u>(\$3,795)</u>	<u>\$0</u>	<u>\$0</u>
Total Cost - Highway Fund (DOR)	(\$9,538)	\$0	\$0

**ESTIMATED NET EFFECT ON  
VARIOUS STATE FUNDS\*****UNKNOWN****UNKNOWN****UNKNOWN**

\*Assumes unknown revenues will exceed  
unknown losses.

**FEDERAL FUNDS****Income - Department of Social Services -  
Division of Medical Services**

Federal Assistance	\$80,464	\$82,332	\$82,332
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**Costs - Department of Social Services -  
Division of Medical Services**

Personal Services (1 FTE)	(\$18,489)	(\$22,750)	(\$22,750)
Fringe Benefits	(\$7,482)	(\$9,207)	(\$9,207)
Expense and Equipment	<u>(\$54,493)</u>	<u>(\$50,375)</u>	<u>(\$50,375)</u>
Total Costs - DOS	<u>(\$80,464)</u>	<u>(\$82,332)</u>	<u>(\$82,332)</u>

**ESTIMATED NET EFFECT ON  
FEDERAL FUNDS****\$0****\$0****\$0****FISCAL IMPACT - Local Government**

FY 2004

FY 2005

FY 2006

**LOCAL GOVERNMENT****Income - Counties**

Time payment fee (488.5025)	Unknown to \$960,000	Unknown to \$1,152,000	Unknown to \$1,152,000
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Income - Cities/Counties

Increase in tax compliance	Unknown	Unknown	Unknown
Increase in MV title delinquency penalties (301.190)	Unknown	Unknown	Unknown
Fines and costs on criminal cases offset	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
Total Income - Cites/Counties	Unknown	Unknown	Unknown

Loss - Cities/Counties

Investment funds service corp license fees (71.620)	(Unknown)	(Unknown)	(Unknown)
Sales tax exemption for natural gas used in the production of ethanol (144.030)	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Total Loss - Cities/Counties	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

**ESTIMATED NET EFFECT ON**

**LOCAL FUNDS\*** **UNKNOWN** **UNKNOWN** **UNKNOWN**

\*Assumes unknown revenues exceed unknown losses.

FISCAL IMPACT - Small Business

Small businesses could be expected to be impacted by this legislation.

DESCRIPTION

This proposal makes various changes regarding taxation. The proposal:

(1) Requires every vendor or affiliate of a vendor seeking to contract to provide goods and services to Missouri to collect and properly pay all sales and use taxes (Section 32.057);

DESCRIPTION (continued)

(2) Regarding state procurement:

a. The proposal allows the state to give preference in purchasing to businesses that are either

located in Missouri or which employ Missourians;

b. The proposal allows the state to use the reverse auction procurement method, wherein bidders would openly compete against each other through real-time electronic bidding with the award being made to the first, lowest bidder;

c. The proposal requires bidders in the reverse auction procurement method to pre-qualify with the Office of Administration (COA), and allows COA to deny any bidder who has defaulted in a prior state bid;

d. The proposal modifies the recycling preference law to remove provisions that have expired; and

e. The proposal removes sections concerning vendor rotation and purchasing consolidation (Sections 34.010, 34.032, 34.062, 34.070, 34.073, 34.065 and 34.130);

(3) Increases the user fee collected by recorders of deeds from three to five dollars (Section 59.319);

(4) Increases from 5 cents to 10 cents per \$100 the maximum allowable tax levied on property to provide services for those over age 60 and older, if voter approval is obtained. (Section 67.990)

(5) Authorizes the city of Weston to impose a 1/2% sales tax for tourism, with approval by vote of the people (Section 67.2030);

(6) Adds Investment Funds Service Corporations to the list of those professions from which no municipal or other corporation tax or license fee may be collected (Section 71.620)

(7) Provides an amnesty period for the penalties, interest, fees and additions to tax for failure to pay sales tax on vehicles and failure to register such vehicles; the amnesty will run from 8/1/03 to 10/31/03; after the amnesty, all such penalties will be doubled (Sections 136.325 and 144.250);

(8) Automatically decouples Missouri income tax provisions when the federal government amends the Internal Revenue Code; the IRC as it existed on January 1, 2003 will apply to all tax returns filed after December 31, 2003 (Section 143.091);

DESCRIPTION (continued)



(9) Extends the decoupling from the accelerated bonus depreciation for an additional year; a one year decoupling was originally enacted in SB 1248 (2002) (Section 143.121);

(10) Requires any amount of pension, annuity, or retirement allowance deducted for state individual income tax purposes to be included in the taxpayer's federal adjusted gross income and not otherwise deducted in the calculation of Missouri taxable income. Persons who are 100% disabled, as defined by federal law, are exempted from this provision (Section 143.124);

(11) Requires all lottery and other gaming winnings to be included in Missouri nonresident adjusted gross income when the winnings are from a Missouri source, and requires withholding of such taxes for all winnings on electronic devices, with a \$600 minimum threshold, and withholding of such taxes on table games, with a threshold of \$1200 (Sections 143.181 and 313.822);

(12) Allows the Director of the Department of Revenue to require the remittance of sales and use taxes and withholding taxes through an electronic funds payment system for employers and sellers who are required to file and pay on a quarter-monthly frequency (Sections 143.225 and 144.081);

(13) Includes court costs in excess of \$25 related to the State Supreme Court, Court of Appeals, or any circuit court of Missouri as amounts that can be offset against a refund of taxes owed to a taxpayer (Sections 143.782 and 488.5028);

(14) Places an option on income tax returns for a refund to be kept by the state and deposited directly into the General Revenue Fund (Section 143.1020);

(15) Prevents items on which no sales tax has been paid from counting against the purchase price of an item; in the case of a vehicle, the person trading in the item must own that item; in the case of a farmer buying a vehicle for agricultural use, the farmer may trade in grain or livestock which he or she produced (Section 144.025);

(16) Exempts natural gas used in the primary manufacture or processing of an agricultural product and modifies the farm machinery exemption to include the entire purchase price of machinery, supplies and equipment (Section 144.030);

DESCRIPTION (continued)

(17) Prohibits retailers from obtaining refunds of sales and use taxes without crediting the original purchasers. If the retailer has partial information regarding the original purchaser, the money shall be considered abandoned property, under the state's abandoned property law (Section 144.190);

(18) Specifies that some of the proceeds of the Health Initiatives Fund will be appropriated to the Division of Alcohol and Drug Use for the administration and oversight of the Substance Abuse Traffic Offender Program; The Department of Mental Health (DMH) has the authority to establish the amount of supplemental fees that are paid by persons enrolled in the Substance Abuse Traffic Offender Program; Delinquent fees will have interest charged and will accrue at a rate not to exceed the established annual rates plus three percentage points; The supplemental fees and any interest received by DMH will be deposited in the Mental Health Earnings Fund; The administrator of the Substance Abuse Traffic Offender Program must remit the supplemental fees to DMH on or before the fifteenth day of each month; Any administrator failing to remit the supplemental fees and interest will be subject to a penalty equal to the amount of interest accrued on the supplemental fees; If the supplemental fees, interest, and penalties are not paid within six months, the Attorney General may initiate appropriate action; Delinquent programs shall be assessed attorney's fees and court costs (Sections 191.831, 302.304, 302.540, 577.041, 577.049, 577.520);

(19) Modifies the rebate amount for prescription drugs in the Missouri Senior Prescription Program; For all transactions that occur prior to July 1, 2003, the rebate amount shall be fifteen percent of the average manufacturers' price; For all transactions that occur on or after July 1, 2003, the rebate amount shall be fifteen percent for brand name prescription drugs and eleven percent for generic prescription drugs (Section 208.565);

(20) Increases the payment schedule for the in-lieu of tax on certain large boats or vessels documented with the U. S. Coast Guard. The proposal subjects these boats and vessels to an increase in in-lieu of taxes. (Section 306.016);

(21) Similar to the FRA, draws down additional federal funds for Rx drugs. This was enacted last session and this amendment extends the program. Relating to the tax levied on licensed retail pharmacies providing outpatient prescription drugs in Missouri - Department of Social Services may adjust more frequently for individual providers for significant changes in sales. Deletes the requirement that the tax be subject to an annual impact study by the Department of Insurance. After July 1, 2005, the tax shall expire after 90 days if the dispensing fee paid to pharmacists falls below FY 2003 levels and the reimbursement dispensed by pharmacies falls

DESCRIPTION (continued)

below FY 2003 levels. Extends the expiration date of these sections from 2003 to 2005 (Sections 338.515 to 313.550).

(22) Real estate brokers holding funds that belong to another party in a real estate transaction must maintain such funds in a separate account designated as an escrow or trust account. Brokers cannot commingle their own personal funds or any other moneys in this account with the exception of \$1,000 specifically identified to cover service charges related to the account. If a broker decides not to maintain an escrow account or within 10 days of opening an escrow account, the State Tax Commission must be notified. If there is a dispute regarding ownership of escrow moneys, the funds must be deposited with the State Treasurer within 180 days of the original deposit. The funds will be held until the dispute is resolved. The proposal repeals provisions relating to escrow agents (Section 339.105).

(23) Allows the Secretary of State to dissolve corporations for failure to pay corporate franchise and income tax, with certain notice and other limiting provisions (Sections 351.120, 351.140, 351.484, 355.856, 356.211);

(24) Allows court costs to be paid in installments with a \$25 surcharge (Section 484.5025);

(25) Allows the courts to hire private collectors to collect past due fines, costs, etc. (Section 488.5030);

(26) Removes statutes regarding licensure requirements for production or distribution of soft drinks or beverages (Sections 196.365 to 196.545)

(27) Requires as a condition of employment with the state government that all state income taxes due be filed and paid by the employee; Requires all state income taxes due to be paid by members of the General Assembly, statewide elected officials, and members of the Judiciary; The reporting of tax compliance concerning members of the General Assembly and the Judiciary must be a direct communication between the Director of Revenue and the official, prior to reporting the situation to the applicable ethics commission (Section 1);

(28) Allows for revoking any professional license granted by the state after issuance unless tax clearance from the Department of Revenue is verified (Section 2);

The act contains an emergency clause.

### DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
    Division of Budget and Planning  
    Division of Purchasing  
State Treasurer  
Department of Conservation  
Department of Transportation  
Missouri Gaming Commission  
Missouri Lottery Commission  
State Tax Commission  
State Courts Administrator  
Missouri House of Representatives  
Attorney General's Office  
Missouri Ethics Commission  
Missouri State Senate  
Office of the Governor  
Department of Economic Development  
    Division of Professional Registration  
Department of Social Services  
Secretary of State  
City of Kansas City  
Department of Natural Resources  
Department of Mental Health  
Department of Health and Senior Services  
Department of Elementary and Secondary Education  
Coordinating Board of Higher Education  
Department of Public Safety  
    Water Patrol  
    Highway Patrol

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Bill No. Truly Agreed To and Finally Passed CCS for SS for SS for SCS for HCS for HB 600

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Missouri National Guard  
Office of Prosecution Services  
State Public Defender's Office  
SOURCES OF INFORMATION (continued)

Department of Agriculture  
Department of Insurance

NOT RESPONDING: City of St. Joseph

MICKEY WILSON, CPA

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

DIRECTOR  
JUNE 10, 2003

KS:LR:OD (12/02)